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ABSTRACT

In evaluating the impacts of increased industrialization on small rural communities, some factors to consider are: how much employment and income will go to local people; will industry alleviate poverty; how will income benefits be distributed; and how will industry change community values, local politics and volunteer organizations, local government, school districts, and population. Effects of industry vary according to type of industry, extent to which it depends on local sources for materials and services, labor requirements, and company attitude toward the community. Main conclusions are (1) jobs created that will be filled by local people will not greatly exceed total number of direct plant jobs; (2) relatively few people escape poverty as a direct or immediate result of new industry; (3) increased tax base is not likely to offset additional public service costs if industrial property is tax exempt; (4) large companies headquartered elsewhere may mean less local control by local people; (5) population will probably expand, resulting in greater need for improved public services and greater dependence on wage and salary work; and (6) depending on community and industry structure, a community's social structure will be changed--more impersonal, less family and neighborhood-oriented life style. (BS)

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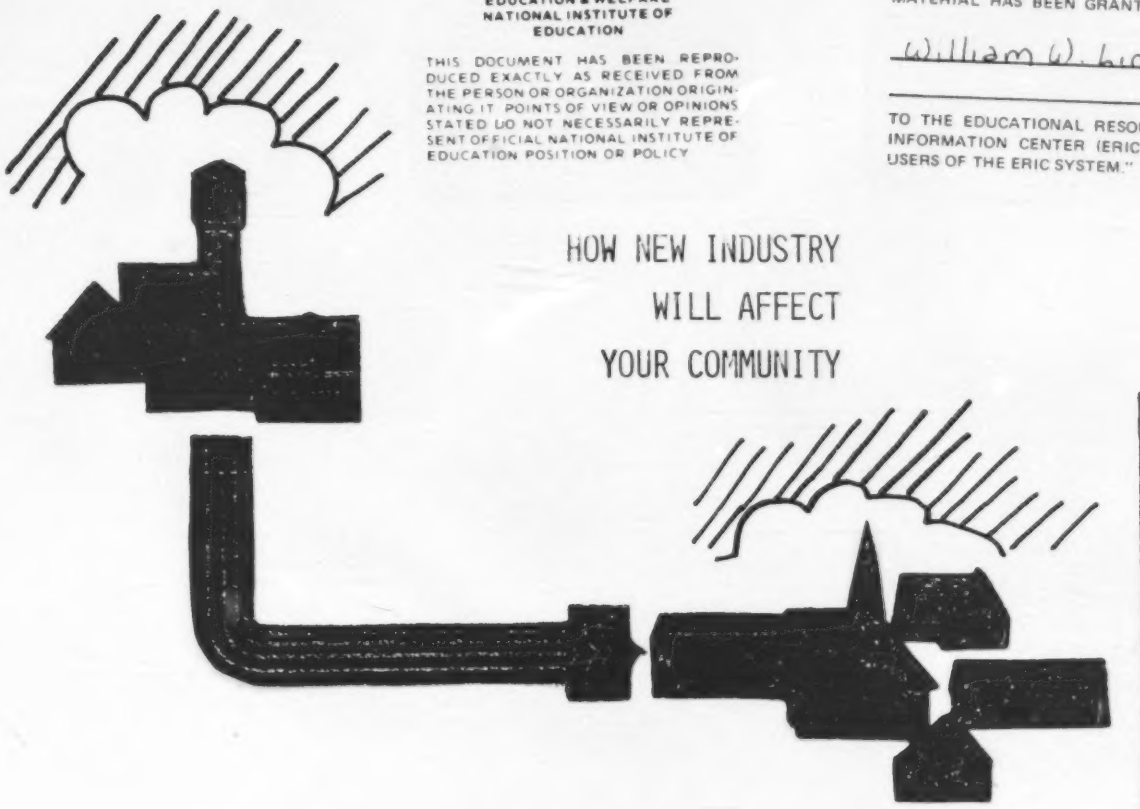

HOW NEW INDUSTRY WILL AFFECT YOUR COMMUNITY

SOUTHERN RURAL DEVELOPMENT CENTER

RC 010746

FOREWORD

This paper marks the fifth publication resulting from Dr. Eldon D. Smith's work as center associate for the Southern Rural Development Center Functional Network on Industrialization of Rural Areas. Dr. Smith, professor of agricultural economics at the University of Kentucky has devoted a great deal of time and effort to the workings of the network, and his guidance and expertise have proven extremely valuable.

In "How New Industry Will Affect Your Community," Dr. Smith discusses the varied impact--both positive and nagative--caused by the recent trend toward increased industrialization of rural areas. He points out effects that can be expected from the location of a new industry in a small town and those that cannot be expected. He suggests that while new industry can prove beneficial to rural areas, it can also bring problems which must be addressed by the communities.

Copies of other publications prepared by Dr. Smith and the members of the Functional Network on Industrialization, including an annotated bibliography, two synthesis papers and a general information paper, may be obtained by writing the Southern Rural Development Center, Box 5406, Mississippi State, MS 39762.

William W. Linder
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HOW NEW INDUSTRY WILL AFFECT YOUR COMMUNITY

by

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How New Industry Will Affect Your Community

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Some Basic Questions

Do you want new industry in your community? What will new industry do for it or to it? Who will benefit? Who will lose? Who will bear the costs? Will it help ease the burden of taxes to support schools, streets, fire protection, and other public services? Or will the added expenses for school districts, county, or city governments be greater than the new tax revenues? Will other aspects of the quality of life in the community such as family relations, community spirit, and freedom from crime be impaired? Will local people lose control of their own local government and social organizations, or will new leadership, helpful in building a better community, come with new industry?

Potential Change

Only a few years ago most rural communities would not have faced these questions. Trends were toward more migration of rural people to the cities, especially large cities in the north, east, and the Pacific coast. Industrial growth in rural areas was lagging behind that of urban areas. The cost of attracting industry to most rural communities would have been very high unless they were

favored by a strategic location, special resources that could not be moved at low costs or other unusual factors.

A New Trend Toward the Country

In the past 10 years things have changed. Communities without much hope of increasing job opportunities a few years ago now have healthy, growing industry. This is especially true in the South.

The exact reasons for this change are not entirely clear, but probably include the interstate highway system, financial aids to small communities to improve services, improvements in schooling in rural areas, better financing schemes for small industry, local action to develop good sites, plus the crime, congestion, and other problems found in our central cities. Whatever the reasons, the balance has tipped, at least for now, toward industry growth in rural areas--small cities and towns of less than 50,000 population.

Some communities are more favorably situated than others. For some, the problem is not how to get new industry, but whether they want to accept it. For others, the cost of required community improvements and promotion efforts may be high. Either way, it is important to know what to expect and what not to expect when industry comes to your town.

How Much Employment and Income for Local People?

Improved incomes and more jobs - these are the main reasons for wanting industry to grow in rural areas. But jobs and incomes for whom?

State and Federal vs Local Interests

State and Federal programs to aid industrial growth are designed to improve conditions in large areas. Whether people commute from a large surrounding area or move to a new area to get a job is less important in the design of these programs than the fact that they get a job or a higher income somewhere. But county and municipal officials are responsible for the welfare of their people. To create income and employment opportunities for commuters from surrounding areas and people who move there to live and work is not their primary purpose. Their interest should be and usually is in jobs and incomes that will go to their constituents - the people in their community rather than people who move in or people who commute from other communities to work there.

Forecasting Local Income and Employment Benefits

When industrial prospects examine potential locations, they usually indicate the expected employment of the plant. Several factors make this announced expected employment of an industrial prospect an inadequate basis for estimating its effect on jobs and incomes. Important factors include the following:

1. Growth Patterns of Industry Classes Differ

Research at the University of Kentucky indicates that several classes of industry tend to grow very slowly toward announced planned employment. Apparel, stone, clay and glass products, primary metals and fabricated metal products tend to be slower-growth industries which undershoot planned employment for

many years. Nonelectrical as well as electrical machinery, rubber and plastic products, and furniture and fixtures plants tend to exceed expectations about six years after beginning operations.

2. Commuting "Soaks Up" Local Jobs

Commuting areas differ depending on local labor supplies and other factors. But one-fifth of employees of new (1970-73) Kentucky plants commute from outside the county. With larger counties, Oklahoma intercounty commuters were only 10 percent of the work force of new plants.

3. Inmovers Cut Down Jobs for Local Residents

Managers of branch plants, skilled workers to fill gaps in local labor supplies and, occasionally, production workers move in to take jobs. Each job that they take means less local resident employment, although this is usually not a big factor.

4. Reduced Outcommuting Limits Local Impact

When new jobs become available, local people with jobs in other communities often apply in order to save travel time and money. Sometimes wages are better, but not always. Hence, there is a tendency to have fewer jobs for unemployed local residents. This is a big factor in some areas and 40 percent of plant employment in one state.

5. Former Jobs Not Refilled and Multiple Job Holding

If old jobs of persons shifting jobs are not refilled, the industrial jobs taken by them add nothing to local employment (although it usually increases incomes of those who shift to plant jobs). Those who "moonlight" at either old or new jobs take jobs away from the unemployed. Part-time farming has similar effects, although added income in both cases may be nearly equal to the plant paycheck. Nearly one-fifth of plant jobs were held by job shifters whose jobs had not been refilled in an Oklahoma research study.

6. Added Jobs and Incomes Created in Other Local Business-Secondary Income and Employment

Added incomes and jobs for industry workers mean added business employment and profits in stores, filling stations, restaurants, and other consumer goods and service establishments. If plants use locally produced materials and services, expanded demand creates more employment and incomes in these establishments. Combined secondary effects can vary greatly from negligible impact to twice the amount of the new plant's payroll and employment.

Actual Levels of Local Benefits

The level of local benefits will vary, depending on the type of industry and structure of the local area economy, especially the supply and demand for various classes of labor. The size of communities will in part determine the proportion of consumer goods

and services as well as labor and industrial materials and services that can be supplied form local sources. These affect: (1) the proportions of jobs and incomes that leak out and become unavailable to local people; and (2) the secondary jobs and incomes resulting from plant operations.

Three research studies provide us with a general idea of the average level and the range of employment and income benefits to local residents. These are based on actual employment in the plants, not on expected employment. They give: (1) the estimated number of jobs available to local residents per plant employee; and (2) dollars of income received by local residents per dollar of plant payroll. Therefore, these numbers should be applied to independent estimates of total employment and payroll in computing the total number of jobs or dollars of income the plant will generate.

From this research information some general conclusions can be drawn:

1. Benefits to local residents from new manufacturing industry tend to be quite variable among types of industry. Some of the most common types of rural industry are textiles, shoes, and electrical machinery. These tend to have less favorable effects on total income and employment of local residents relative to actual plant payrolls and employment than heavy industry such as metal fabricating, non-electrical machinery, and food and kindred products.

EMPLOYMENT AND INCOME BENEFITS TO LOCAL
RESIDENTS FROM MANUFACTURING EMPLOYMENT

	Jobs for Residents Per Direct Plant Employee	Resident Income Per Payroll Dollar
Kentucky Counties[1/]		
1. All Manufacturing	1.29	--
2. Fabricated Metals, Nonelectrical Machinery & Related Products	2.23	--
3. Electrical Machinery, Instruments and Related Products	0.91	--
4. Textiles, Apparel & Leather Goods	0.98	
5. Stone, Clay, Glass and Concrete Products	0.69	--
6. Food and Kindred Products	2.08	--
7. Lumber, Wood Furniture, and Other Wood Products	1.51	--
Kentucky Counties[2/]		
1. County A Shoes and Auto Trim	0.78-0.81	0.93-0.94
2. County B Yarn	1.01-1.09	1.24-1.25
3. County C Clothing	0.67-0.85	0.82-0.83
4. County D Whiskey Barrels, Electronic Comm. Equip., Clothing	0.85-0.95	0.82-0.83
5. County E Clothing	0.95-0.97	1.05-1.27
Oklahoma Communities[3/]		
1. Electronics	--	0.79
2. Public Building Furniture	--	0.84
3. Bottled Soft Drinks	--	0.87
4. Wood Household Furniture	--	0.59
5. Upholstered Furniture	--	1.10
6. Canned Fruit, Vegetables, etc.	--	0.84
7. Market Preparation Ag. Products	--	0.80
8. Public Building Furniture	--	0.71
9. Dehydrated Food Products	--	0.65
10. Heating Equipment	--	0.75
11. Structural Steel	--	0.80
12. Pumps & Equipment	--	0.71

EMPLOYMENT AND INCOME BENEFITS TO LOCAL
RESIDENTS FROM MANUFACTURING EMPLOYMENT

(continued)

1/ Unpublished research by Eldon D. Smith and John Van Veen. Based on regression analysis of county data on employment in all major sectors including agriculture, mining, construction, government employment in excess of average requirements. Original estimates adjusted downward by 19.0 percent to allow for nonreplaced job shifters.

2/ From Charles Garrison, Economic Impact of a New Industry on Small Towns. Ph.D. Dissertation, University of Kentucky 1967. Estimates reduced by .50 to allow for commuting and nonreplaced job shifters leakage.

3/ From Ron Shaffer and Luther Tweeten, Economic Changes from Industrial Development in Eastern Oklahoma. Stillwater: Oklahoma State Agricultural Experiment Station Bulletin B-715, 1974. Measures net benefits per dollar of payroll. Costs of subsidies and special services to industry, added service costs for new residents and commuters deducted from private net benefits; added tax revenues and municipal utility revenues added to private net benefits. Values closely approximate income mulitpliers.

2. On the average, income benefits to local residents of counties and municipalities are about equal to industry payrolls.

3. Employment benefits, after allowance for commuting and job shifting, tend to be about equal to plant employment, although benefits are substantially greater in the heavier industry categories, and food and kindred products.

4. Actual benefits will be dependent on rates of employment growth after plants are established. (No secondary income and employment benefits can be expected from anticipated payrolls and employment that fail to develop.) Several important categories of rural industry grow slowly relative to target employment levels.

Other fragments of research information not shown in this report indicate that:

1. Income and employment benefits to local residents will be higher in larger rural communities (over 15,000 population). Estimated differences between large and small communities vary from 11 to 50 percent of plant employment.

2. Closeness to large urban service centers reduces employment and benefits somewhat because more money is spent outside the local economy.

3. Communities with heavy recent outmigration will have reduced employment benefits because local retail service and recreation businesses will be initially underutilized.

4. Industries using large amounts of local raw materials, locally manufactured goods, and local services will have heavier-than-average benefits per plant employee or per dollar payroll.

5. Communities with large amounts of unemployed and potentially employable labor will have less inmoving of workers and larger benefits to local residents.

6. Communities with a large proportion of labor in agriculture will have lower employment benefits because some will continue farming while holding manufacturing jobs.

Effects on Local Government and School Districts

Expansion of community population (or reducing outmigration) results in potential long-run benefits to taxpayers because with larger populations per capita costs of providing public services tend to be lower; thus, tax burdens can be lowered or better services can be provided if community populations grow.

Immediate effects of industry on financing of schools and local government vary. Reducing taxes on industrial property usually results in net losses from industrial expansion. In this case, expanded industry means added demand for services with little increase in revenue to provide them. School finances usually suffer net fiscal losses, especially if plant property is tax exempt. Use of payroll and other non-property taxes would alleviate these problems. Relief of short-run financial problems of school districts, and city or county government usually cannot be expected to result from industrial development.

Alleviation of Poverty

Whenever employment of local people increases, it means that: (1) young people entering working age may stay in the community who would have moved elsewhere to get jobs; (2) formerly unemployed working age people are employed; or (3) a combination of these. In addition, incomes of job shifters ordinarily increase and may bring some people from poverty income levels up to higher levels of income. A small proportion of direct employees of plants appear to be raised from poverty level incomes to above poverty level incomes.

Distribution of Income Benefits

Information on the proportion of income benefits going to people of various income levels is limited. It indicates varied effects on low, middle, and high income groups. In general, there is little indication that high income groups benefit proportionally more than low income families, and they may benefit less. However, general rises in living costs often accompany industrial growth. This may adversely affect fixed income groups, such as retired people, relative to families with wage, salary and property income. Wages and salaries tend to rise with growth of the local economy.

Increasing Dependency and Changing Values

Increasingly, new industries tend to be branch plants of national or multinational corporations with headquarters outside the community. This results in less dependence on local people, local governmental services, and local organizations to provide the

basic needs of the industry and its employees. It also means more dependence on decisions made by company management outside the community, on the success of state and national government in managing the economy, and on nongovernmental organizations such as labor unions, professional organizations and social groups that cover many communities. Dependence on Federal and state agencies of government is increased, and local governmental units increasingly depend on state and Federal revenue being re-allocated to them (revenue sharing) to support their operations rather than locally generated revenue from taxes.

With these changes in relationships, the work group becomes more important and values and attitudes that shape community social relations change. The sense of mutual responsibility toward each other, which once typified the rural family and rural community, tends to give way to more impersonal relations, and there are likely to be more crime, anti-social behavior, and psychological problems as the rural community becomes more oriented to the external organizations upon which it increasingly depends for its welfare. Communities expecting industrial expansion should anticipate that these trends, which are already under way, will be increased. They should plan for changes that are necessary to deal with these problems and to preserve as much as possible those worthwhile aspects of rural community living. While such problems probably cannot be totally avoided, such changes and their effects on individuals can be reduced.

Impact on Local Politics and Volunteer Organizations

Policies of industries vary with regard to their participation in local political action and volunteer organizations. However, whenever a new industry enters a community, especially one employing a large number of people, it almost always changes political and organizational relationships to some extent. In some cases these changes are highly beneficial. Good business leaders can, and often do, exercise constructive community leadership. Those who are civic-minded and whose employers encourage them to do so often spearhead movements to improve the community. When company interests coincide with community interests this is very common. However, community investments that are profitable to the company are not always important to the majority of its citizens. On the other hand, added taxes required to improve community services may be greater than benefits of these services to some types of manufacturing operations. Regulations such as land use controls, which may be necessary to protect the living conditions and property values of others, are sometimes in conflict with company profit objectives. When such conflicts arise, shifts in political power can affect a community's ability to act in its own interests. And when the business and employment interests of important community leaders and many ordinary citizens are closely tied to company interests, the company may become, in effect, an important political force.

In view of these facts, it is good policy to recruit industries whose profit objectives are most in harmony with community interests. The record of branch plants of the same company in other communities

may provide useful clues about what to expect. But the type of operation may be a good indicator as well. For example, industries using primarily unskilled, low-wage labor are not likely to be interested in increasing property taxes to improve local public schools. Neither are such companies likely to want to develop utility services, industrial parks, and the like which would create competition for the local labor supply from other industries requiring higher labor skills, better local services, etc.

When influencing local community decisions allows a company to lower its costs, it is reasonable to expect it to do so. And when the economic interests of many local people (e.g. employees, suppliers of materials or services) are similar to those of the industry, it is unreasonable to expect the industry to forego the opportunities this provides for influencing local political and organizational decisions affecting its profitability.

Population Changes

When new industry enters a community, there is almost always a stabilization of population that had been declining or a reversal of the trend. While many young people still leave to find jobs more to their liking in other areas, more young working age people are retained. In addition, new people with special skills required for key positions in the industry usually move in.

The number of in-movers varies considerably depending on several things: population trends in the period preceding

establishment of the new industry; the size of the plant's work force; recent employment conditions; the types of skills required by the industry; and employment policies of the plant. However, in general, communities planning industrial expansions should expect and plan for some increase in population. This means that land use plans, plans to install capacity to meet increased demand for utility services, plans to accommodate a larger school enrollment, and plans for other public services should be made in anticipation of these population changes.

Over a longer range period, an increased number of people who depend on wage and salary income can be expected. Farms will be consolidated when marginal farming operations are phased out by people who work in industry. Small independent family-operated shops and other local businesses will decline in importance as larger chainstores and other corporate businesses find the community attractive for larger scale operations. This means that morepeople will be forced into retirement at age 65 who would otherwise continue to work in family enterprises. There will be fewer opportunities for young people under age 16 to be employed in these family businesses as well. Therefore, needs for recreation and constructive uses for leisure time will tend to increase as the community grows and becomes more commercially oriented.

Adding it All Together

As we have stated in several connections, the effects of industry on your local community are many and varied. They depend somewhat on the community, its size and its history. But they also depend on the type of industry, the extent to which it depends for materials and services on local sources, and the amount and type of labor the industry requires for its operation. Finally, a great deal depends on the general attitude of company management toward the community and its welfare. Our main conclusions are as follows:

1. In general, it is unrealistic to expect that the total number of jobs created in the community that will be filled by local people will greatly exceed the total number of direct jobs in the plant. Total local resident income gains will approximately equal factory payrolls. The main exceptions are plants that depend on locally produced raw materials, and either "heavy industries" or food processing. For some of these, the indirect employment in supporting industries and in local consumer goods establishments combines to be more than equal to direct factory employment.

2. As a quick solution to problems of poverty, industrial employment is an illusion. While longer term effects may be better, relatively few people move above the level of poverty as a direct or immediate result of new industry.

3. While the tax base may be increased, this is not likely to be enough to offset additional public service costs if industrial property is tax exempt.

4. More industry, especially industry owned by large companies with their headquarters elsewhere, may mean that local people will have less control over their own local affairs. Selection of industries with interests that are consistent with interests of local citizens may be desirable.

5. Population will probably expand somewhat, and as a result, there will be greater need for improved public services, and greater dependence on wage and salary work. Plans should be formulated, costs should be assessed, and realistic appraisals of the ability of the community to meet these needs should be made before industrial development is promoted.

6. The social structure will be changed and some problems in coping with the more impersonal, less family and neighborhood-oriented life style will result. Greater attention to these problems, especially crime, delinquency, and emotional difficulties, will be necessary. However, this will depend greatly on the community and the industry structure.

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